Agents and Surplus Lines

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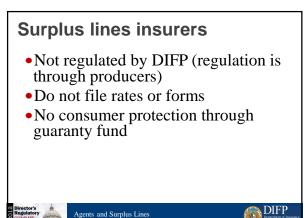
Overview Introduction to surplus lines Who can buy it and when Who can sell it Filing requirements after purchase Review of Nonadmitted and Reinsurance Reform Act of 2010 (NRRA – part of Dodd-Frank)

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• Insurance other than reinsu

- Insurance other than reinsurance, annuities, life, health
- Provides coverage from nonadmitted insurer; coverage "not obtainable" from admitted insurers
- Purchased directly by the policyholder (self-procured) or through a surplus lines licensed producer





Buying surplus lines insurance

- Policyholders directly: \$21 million in
- Policyholders, through licensed producers: \$439 million in 2011





Pre-purchase requirements (producers)

Surplus lines licensee pre-purchase requirements:

- In general:
 - ▶Each insurer is an eligible surplus lines insurer
 - Insurance is not obtainable from admitted insurers
- Exempt commercial purchaser: Not required to check if insurance is obtainable from admitted insurers



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Eligible surplus lines insurers

- Financial requirements: Chapter 384 RSMo
- Maintain minimum capital, surplus: \$15 million
- Must be approved by DIFP or National Association of Insurance Commissioners (NAIC). As of July, 2011:
 - ▶131 insurance companies approved by DIFP.
 - ▶133 insurance companies approved by NAIC.



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"Not obtainable"

Obtainable: coverage available (admitted market) that provides type of coverage and quality of security and service

- Type of coverage: perils covered and limits of coverage
- Quality of security and service: financial rating, i.e. A.M. Best



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Surplus lines – licensed producers

Requirements:

- Property & casualty producer license
- Application & \$100 fee (biennially)
- Surplus lines exam (pre 1987 exempt)



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Surplus lines - Missouri data

- Producers:
 - **▶**2009 1,325
 - **▶**2010 1,458
 - **▶**2011 1.546
- Surplus lines tax paid:
 - ▶2009 \$21.8 million
 - ▶2010 \$21.8 million
 - ▶2011 \$22.9 million



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Premium volume

- Gross premiums written:
 - ▶2009 \$452 million
 - ▶2010 \$440.7 million
 - ▶2011 \$468.6 million
- Taxable premiums written:
 - ▶2009 \$436.6 million
 - ▶2010 \$436.8 million
 - ▶2011 \$457.5 million



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Producer requirements after sale

- Report policy placement to DIFP 45 days after end of quarter
- 5 percent tax on:
 - ▶Net premium and
 - ▶Fees charged to insured
- File tax report with DIFP March 1for previous calendar year
- Tax due April 15th
- All filing electronic



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Policyholder requirements (independent or self-procured)

- 5 percent tax on net premium
- File tax report with DIFP March 1 for previous calendar year (hard copy available at insurance.mo.gov)
- Tax due April 15





NRRA (Nonadmitted and Reinsurance Reform Act)

- Part of Dodd-Frank Wall Street Reform and Consumer Protection Act
- Missouri adopted changes in 2011 to conform to NRRA
- Simplifies surplus lines requirements for policies with risks in multiple states



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Review of NRRA

Definition of "home state" of insured:

- 1. State of insured's principal place of business
- 2. State of insured's principal residence (if individual)
- 3. State with highest portion of taxable premium for the policy (if risk is entirely outside 1 or 2, above)



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Surplus Lines Requirements: Before and After NRRA

Producer license, obtainable test, eligible insurer test

- Before: Each state in which insured had a risk resident, located or to be performed
- After: Home state of insured



Surplus lines requirements: before and after NRRA

Premium tax payments (producer –sold and independently procured)

- Before: Allocate premium to and apply tax rate of each state
- After: Pay premium tax to home state of insured



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Conclusion

- Surplus lines provides coverage not obtainable in admitted market
- Surplus lines producers regulated by DIFP, provide access to the surplus lines market
- Sophisticated insureds can directly buy surplus line insurance
- Dodd-Frank's home state rule simplifies requirements for all involved in surplus lines market



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